

Food Retailers Adjust Private-Label Prices as Costs and Consumer Demand Change

Increased energy and food commodity costs led to rising prices at the grocery store from mid-2007 through March 2009. Concurrently, the United States fell into a recession in December 2007 that lasted until June 2009. Retailers responded by reassessing their pricing strategies, particularly regarding private-label (store brand) foods. These products are more appealing to budget-conscious consumers but may also be more vulnerable than national brands to rising energy and commodity costs.

To assess retailer responses to higher costs and changing consumer demand, ERS researchers compared prices and advertised discounts at two major U.S. supermarket chains during the 14 months

from May 2008 to June 2009 with prices and discounts in the first 14 months after the recession (July 2009 to August 2010). During the first period, average annual food price inflation was 5.3 percent. During the second period, food prices declined at an average annual rate of 1.1 percent.

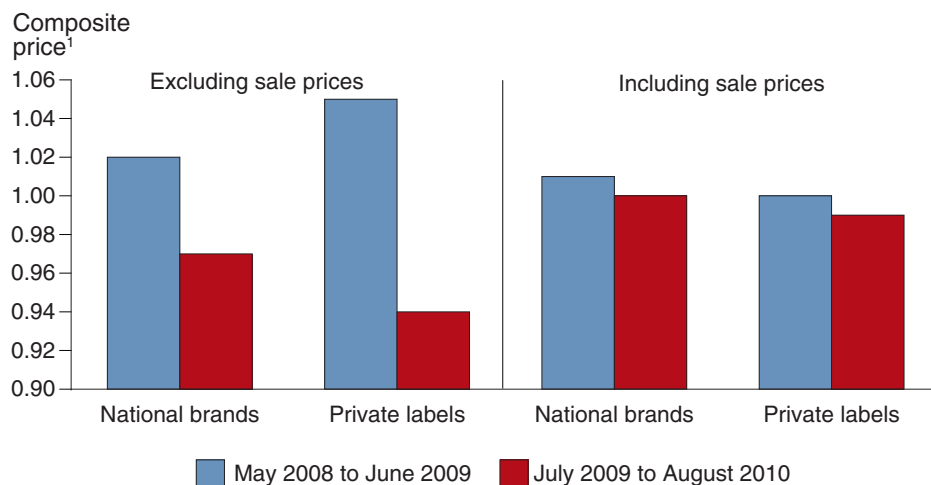
The researchers found that private-label prices fluctuated more than prices of national brands between the periods. Disregarding the effects of temporary price discounts, prices of national brands were 5 percent higher in May 2008 to June 2009 than during the post-recession period, while private-label prices were 11 percent higher in May 2008 to June 2009 than during the second period. As a result of these shifts, the price differential between

national brands and private-label foods was smaller during the recessionary period (21 percent) than it was during the post-recession period (25 percent).

Marketing differences between national brands and private-label food products may explain the smaller price differential during a time of rising food prices. Private-label products have lower advertising and procurement costs. Other inputs, namely food commodities and energy, make up a larger share of total production and marketing costs for private-label foods than for national brands, making private-label foods more responsive to rising commodity and energy costs.

ERS researchers also examined how the frequency and magnitude of price discounts affected consumers' food costs. Price discounting significantly lowered prices during May 2008 to June 2009. When accounting for the effects of advertised sales, average prices were only 1 percent higher for both national brands and private-label products during the recessionary period than in the post-recession period. This finding highlights the importance of price discounts for consumers seeking to save on grocery bills during times of higher-than-normal inflation or volatile food prices.

Sale prices lessen price volatility, especially for private-label products



¹The composite price is an average retail price, divided by the mean price of each product/store combination. This allows prices to be summed across products whose prices may differ substantially. Comparisons of composite price levels between national brands and private-label products are not appropriate.

Source: USDA, Economic Research Service.

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This finding is drawn from . . .

The Relationship Between National Brand and Private Label Food Products: Prices, Promotions, Recessions, and Recoveries, by Richard Volpe, ERR-129, USDA, Economic Research Service, December 2011, available at: www.ers.usda.gov/publications/err129/